

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-09 FRB-01 INR-07 IO-10 NEA-10 NSAE-00 OPIC-06

SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01 OMB-01 OIC-02 L-03

H-02 HEW-06 /092 W

----- 115864

R 250855Z SEP 75

FM USMISSION NATO

TO SECSTATE WASHDC 3729

INFO USMISSION OECD PARIS

UNCLAS USNATO 5229

E.O. 11652: NA

TAGS: AFIN,NATO, OECD

SUBJECT: PENSION SCHEME- COORDINATING COMMITTEE OF GOVERNMENT
BUDGET EXPERTS (CCG)

REFS: A. OECD PARIS 24462

B. STATE 092187, APRIL 22, 1975

C. OECD PARIS 10017, APRIL 19, 1975

D. CCG/W(75)48

E. CCG/W(75)17

F. CCG(74)1

SUMMARY: WE RECOMMEND CHANGE IN US POSITION ON COST OF
VALIDATING PRIOR SERVICE FOR PENSION SCHEME. END SUMMARY.

1. THE US POSITION (REFS A AND B) SUPPORTS THE VIEW OF THE
SECRETARIATS IN THE CCG THAT ARTICLE 27(OF THE 94TH
REPORT OF THE CCG- REF E) MEANS THE COST OF VALIDATION , OR
"BUYING IN" TO THE PENSION SCHEME, SHOULD BE 21PCT OF THE SALARY
PAID PLUS COMPOUND INTEREST AT 4PCT PER YEAR COMPUTED IN THE CURRENCY
OF THE CONTRIBUTIONS.

2. DURING DISCUSSIONS LEADING UP TO THE 94TH REPORT, REPS
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OF THE SYGS OBJECTED TO A PROPOSAL TO TAKE ENIRE PROVIDENT FUND
HOLDINGS AS THE COST OF VALIDATION BECAUSE THIS WOULD INEQUITABLY
REQUIRZASOME EMPLOYEES TO PAY MORE FOR VALIDATION THAN OTHER

EMPLOYEES BECAUSE SOME FUNDS HAD BETTER MANAGED AND PERFORMED BETTER THAN OTHERS. THE COMMITTEE THEN AGREED TO ALLOW THE EMPLOYEE TO RETAIN ANY EARNINGS OVER 4PCT, APPARENTLY BELIEVING THIS WOULD NOT BE A SIGNIFICANT SUM BUT SUFFICIENT TO SHOW COMMITTEES CONCERN FOR THE INTERESTS OF THE STAFF.

3. AFTER THE 94TH REPORT HAD BEEN ACCEPTED BY THE COUNCILS, AT LEAST IN PRINCIPLE, CANADA, GERMANY AND OTHERS REALIZED THAT THE SOLUTION THE COMMITTEE HAD FOUND TO OVERCOME ONE INEQUITY CREATED FAR GREATER INEQUITIES INVOLVING, IN SOME CASES, LARGE GAINS FOR EMPLOYEES AT THE EXPENSE OF THE GOVERNMENTS, TOTALLING SOME MILLIONS OF DOLLARS. THE 21-PLUS-4 FORMULA, IF APPLIED TO NATIONAL CURRENCIES OF THE CONTRIBUTIONS, WOULD RESULT IN SOME EMPLOYEES, AT LEAST IN NATO, BEING ABLE TO VALIDATE PAST SERVICE BY PAYING ONLY ABOUT HALF OR TWO THIRDS OF THEIR PROVIDENT FUND HOLDINGS, AND OTHERS HAVING TO PAY ALL OF THEIR HOLDINGS, EVEN THOUGH THEY WERE MEMBERS OF THE SAME PROVIDENT FUND WITH SAME YEARS OF SERVICE. THE REASON FOR THE DIFFERENCE IS THAT THE FORMULA GIVES THE GREATEST ADVANTAGE TO THE EMPLOYEE WHO HAS MADE HIS CONTRIBUTIONS IN THE MOST RAPIDLY DEPRECIATING CURRENCY (REF D). SIMILARLY, WHILE 4PCT MIGHT BE A REALISTIC INTEREST RATE FOR GERMAN MARKS OR SWISS FRNACS, ACCOUNTS IN ITALIAN OR TURKISH LIRA MIGHT EARN AS MUCH AS 15PCT OR MORE, IN PART COMPENSATING FOR THE RISK IN ANY ONE YEAR OF SIGNIFICANT DEPRECIATION OF SUCH CURRENCY. THEREFORE, FOR SUCH CURRENCIES, 4PCT WAS NOT A REALISTIC FIGURE.

4. THE CANADIAN REP HAS PROPOSED THAT IF A CONSTANT 4PCT IS APPLICABLE TO ALL EMPLOYEES, THEN VALIDATION COSTS SHOULD BE COMPUTED IN UNITS OF CONSTANT VALUE. IT IS NOT FAIR, ONE MIGHT ARGUE, TO ALLOW VALIDATION PAYMENTS TO BE MADE IN AN INFLATED CURRENCY FOLLOWING A FORMULA BASED ON AN INTEREST RATE WHICH WAS REALISTIC ONLY IN COUNTRIES WITH STABLE CURRENCIES. IF A SWEETENER IS DESIRED, IT MIGHT BE BETTER TO REDUCE THE INTEREST RATE USED TO 3PCT BUT COMPUTE VALIDATION COST ON BASIS OF A CONSTANT MONETARY UNIT OR COMPARABLE TECHNIQUE, AS PROPOSED BY CANADA. THIS IS PARTICULARLY A PROBLEM AT NATO
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WHERE CONTRIBUTIONS TO THE PROVIDENT FUND ARE MADE IN MANY DIFFERENT NATIONAL CURRENCIES-- AND WHERE FUND ACCOUNTS ARE KEPT IN INTERNATIONAL ACCOUNTING UNITS-- RATHER THAN AT OECD WHERE CONTRIBUTIONS AND ACCOUNTS ARE IN FRENCH FRANCS.

5. MISSION RECOMMENDS THAT DEPARTMENT CONSIDER CHANGING US POSITION TO SUPPORT THE CANADIAN PROPOSAL (REFS A AND C) PRIOR TO NEXT MEETING OF COORDINATING COMMITTEE OCTOBER 14. BRUCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 18 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 25 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NATO05229
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 NA
Errors: n/a
Film Number: n/a
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197509102/abbrzmei.tel
Line Count: 108
Locator: TEXT ON-LINE
Office: n/a
Original Classification: SECRETARIATS
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: SECRETARIATS
Previous Handling Restrictions: n/a
Reference: A. OECD PARIS 24462 B. STATE 092187, APRIL 22, 1975 C. OECD PARIS 10017, APRIL 19, 1975 D. CCG/W(75)48 E. CCG/W(75)17 F. CCG(74)1
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 30 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 APR 2003 by ShawDG>; APPROVED <01 MAY 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PENSION SCHEME- COORDINATING COMMITTEE OF GOVERNMENT BUDGET EXPERTS (CCG)
TAGS: AFIN,NATO, OECD
To: STATE INFO OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006